DOES MANDATORY SHAREHOLDER VOTING PREVENT BAD ACQUISITIONS?

Discussion by

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This paper

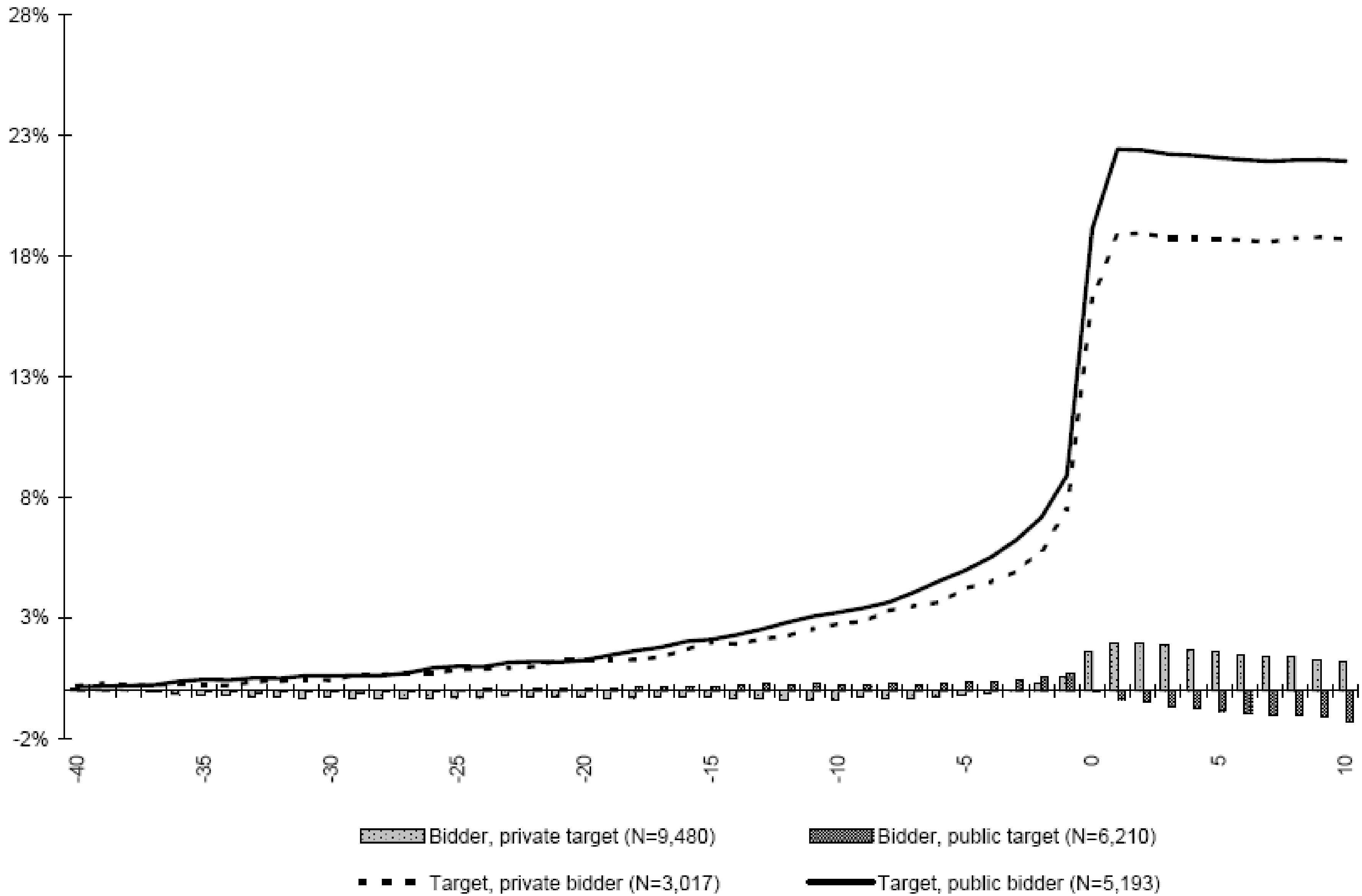
- Examines bidder announcement returns in the UK, where large acquisitions require a shareholder vote
- Finds significantly higher bidder CARs for transactions that require a vote (Class 1) compared to transactions that don't require a vote (Class 2)
  - Robust across different empirical specifications
- Takes this as evidence that mandatory shareholder voting reduces the opportunity for managers to overpay in takeovers

Do acquisitions destroy value?

- In the UK sample, all acquisitions have positive average bidder announcement CAR(-1,+1)
  - Class 1 (voting): 3.0%
  - Class 2 (no voting): 0.8%

- Let’s take a look at bidder announcement returns in the US for a sample of 13,000 successful initial bidders, 1980-2005
  - Betton, Eckbo and Thorburn (2008)

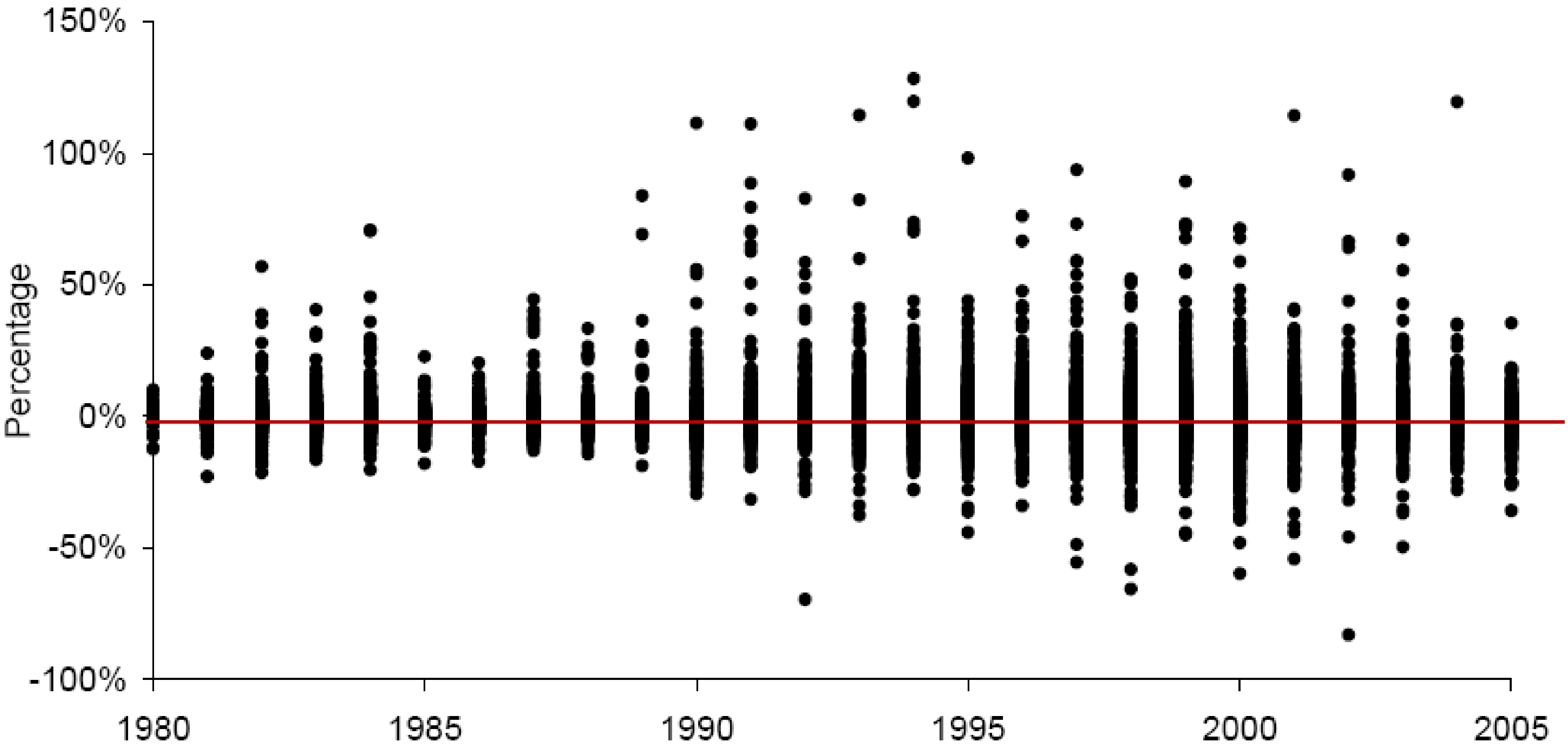
Average CAR to targets and initial bidders from day -40 through day +10 relative to the initial control bid



Annual distribution of announcement-period bidder CAR (-1,1)

NHH

A: Cumulative abnormal return (-1,1)



Annual distribution of announcement-period bidder dollar abnormal returns

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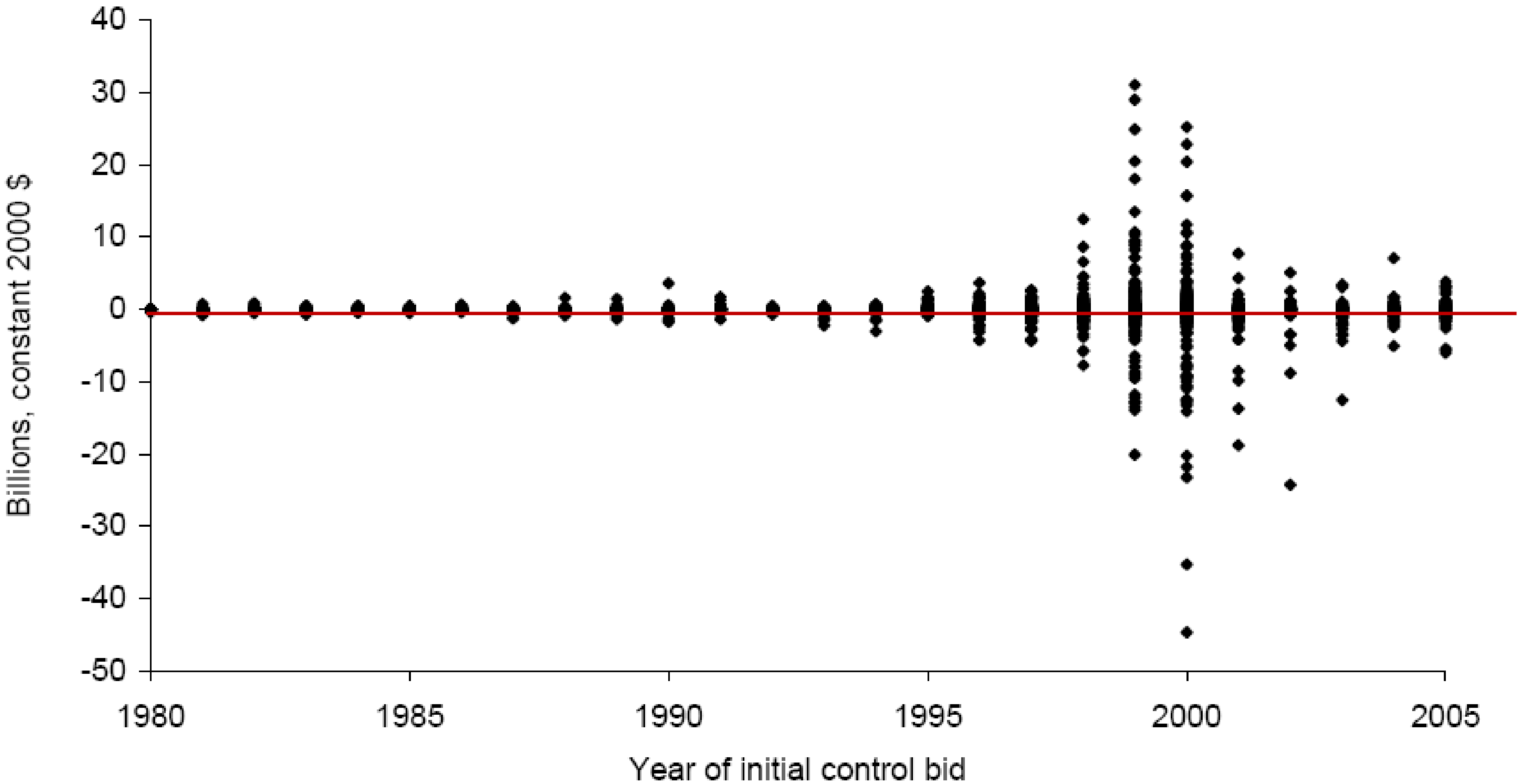
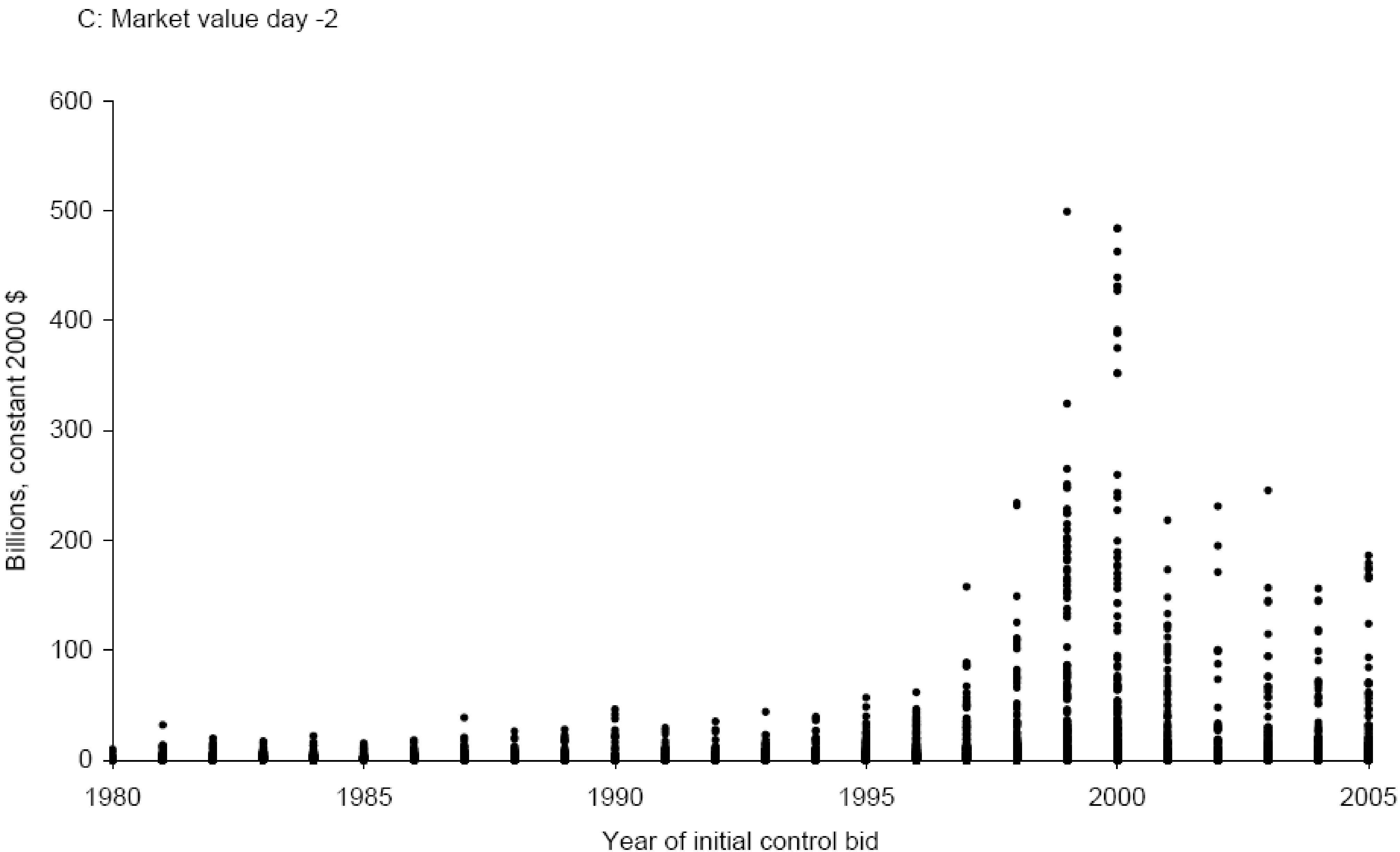
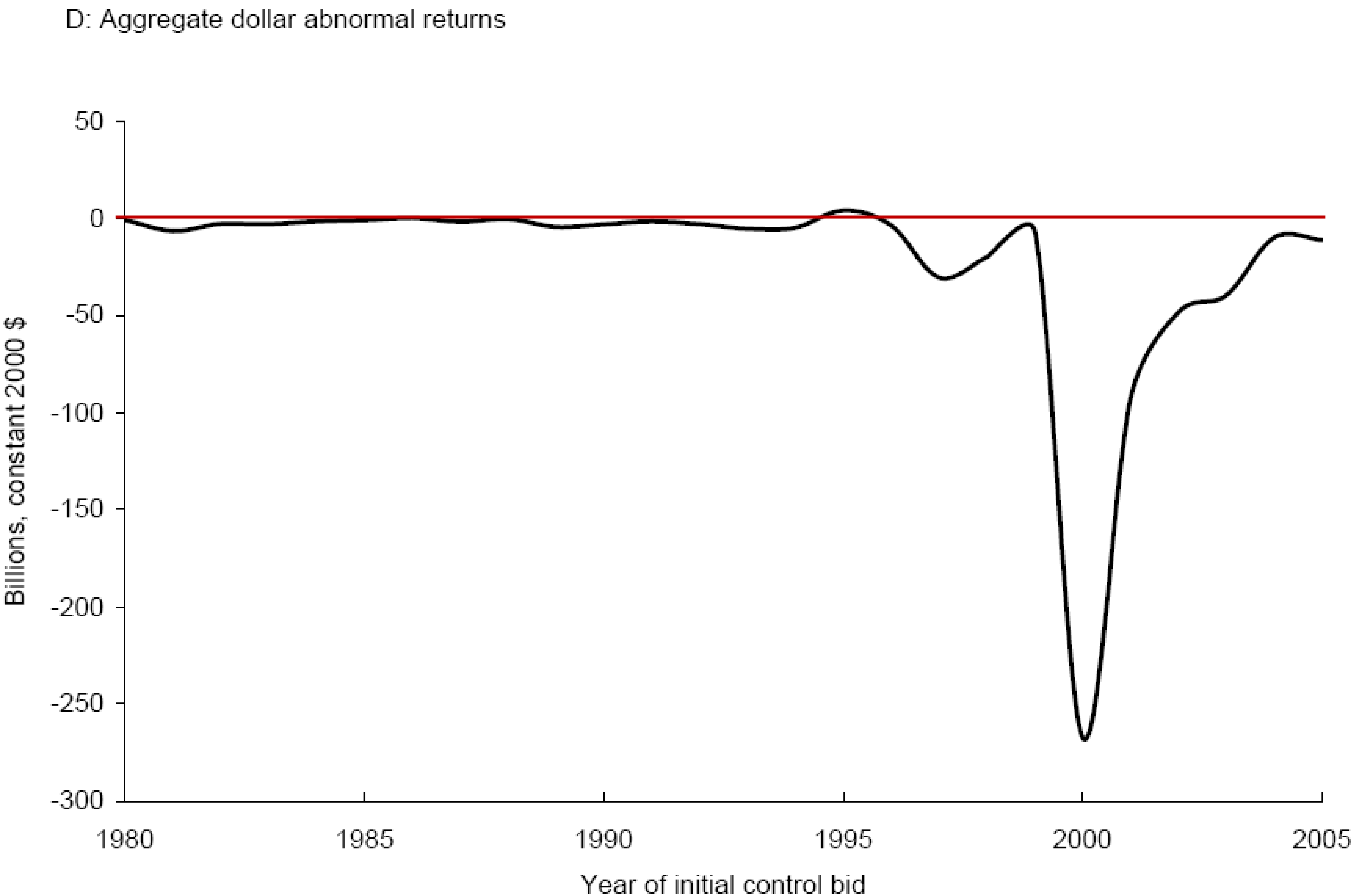
B: Dollar change (-2,1)



Annual distribution of acquirer pre-bid market value (day -2)



Annual aggregate announcement-period bidder dollar abnormal returns



Standardized bidder dollar abnormal returns by method of payment, 1980-2005

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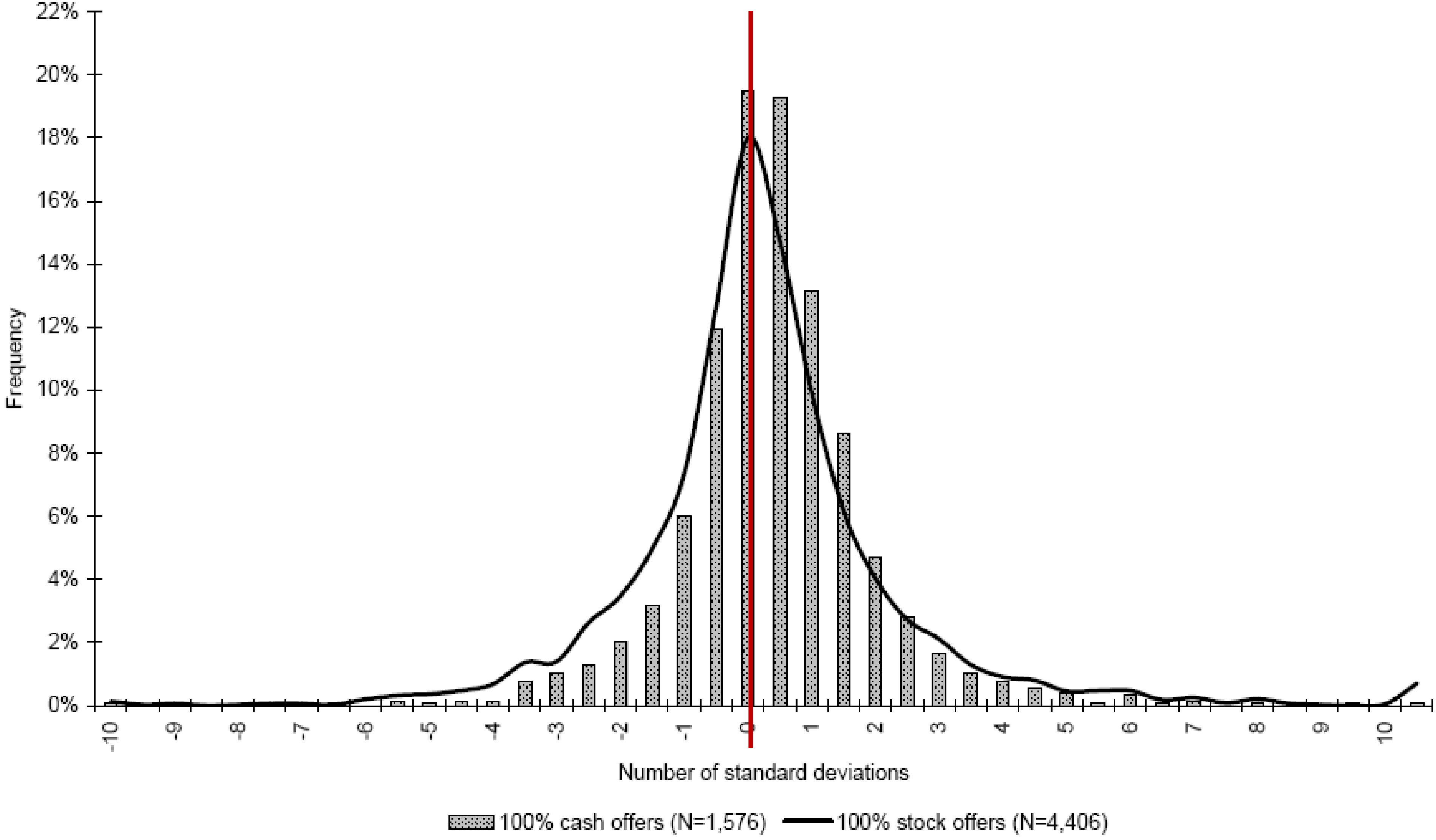
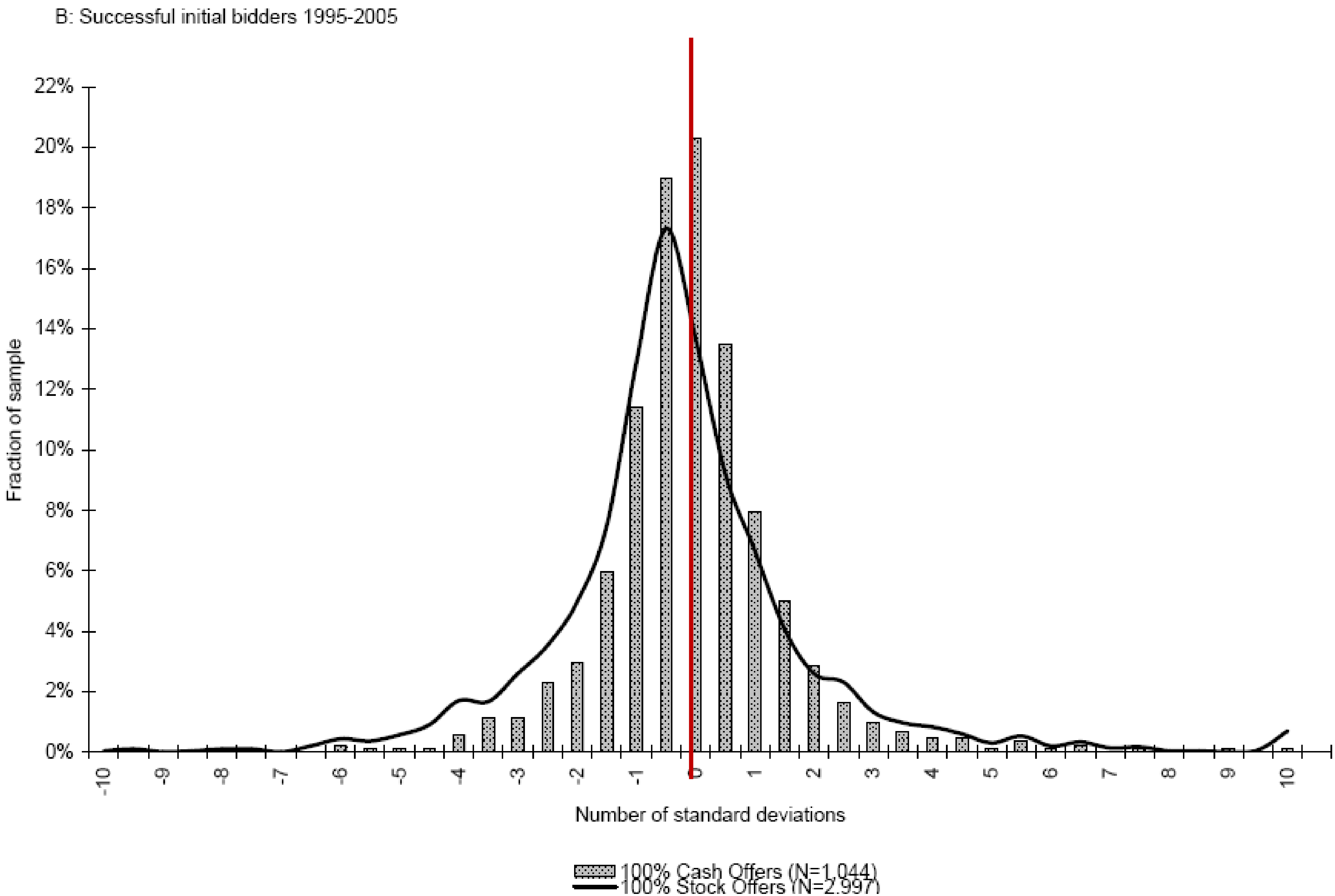
A: Successful initial bidders 1980-2005



Standardized bidder dollar abnormal returns by method of payment, 1995-2005



When do bidders make money?

Bidder average announcement CAR (-1,1)

		Public targets		Private targets	
		N	ACAR	N	ACAR
Large bidders: (top quartile MVE)	All stock:	769	-0.022**	445	0.001
	All cash	439	-0.003**	88	0.003**
Small bidders: (bottom quartile MVE)	All stock:	495	-0.001	872	0.065**
	All cash:	190	0.031**	184	0.018**

What is the effect of the shareholder vote?

- Restraining managers from making large value-destroying takeovers?
- Improve the bargaining power of managers vis-à-vis the target?
  - Should reduce the gain to target shareholders
  - Do target announcement returns differ across Class 1 and Class 2 acquisitions?
- Should shareholders be concerned with empty voting and institutional investors owning large equity stakes in the target?

Why are all votes positive?

- Do managers propose only value-increasing deals?
- Or do shareholders rely on the information presented by managers?
  - Two-thirds of the votes take place within one month
  - The notification document “is several pages long”
  - Only 14% of Class 1 transactions with large negative CAR (< -3%) are withdrawn
- Do shareholders vote with managers in other corporate decisions as well?

Do the sample restrictions introduce a bias?

The sample selection procedure excludes:

- 186 cases where the transaction is not completed
  - Why did these transactions fail?
  - Because of a negative shareholder vote?
  - Represent 14% of the sample (186+1109)
- 54 cases where shareholder approval is due to the issuance of shares
  - These transactions are likely relatively large (or the bidder would not have to issue a large amount of shares)
  - Eliminating all-stock acquisitions may reduce average bidder CAR

Can UK corporate governance be generalized to US firms?

- Dispersed share ownership and large institutional investors
- UK boards often dominated by insiders
  - US boards have a majority of outside directors
- UK shareholders vote on important corporate decision
  - US shareholders elect the board and vote only on share issuance and selling their shares

- Is the model of delegating the monitoring of management to the board flawed?
  - Then how should public companies be governed?

Minor comments

- Is the average CAR of 0.76% for Class 2 deals significantly different from zero?
- How many unique acquirers are in the sample?
  - How relevant is it to cluster standard errors by acquirer in the regressions of CAR?
  - Use White's correction for heteroscedasticity instead
- Relative size is determined jointly with many of the other deal characteristics
  - Try a Heckman switching regime model for the CAR

To conclude

- Interesting paper showing that acquisitions brought to a shareholder vote have more positive announcement returns than those not brought to a vote
- Raises the question of whether the corporate governance model of delegated monitoring of management is flawed
- Thought provoking, but needs more work to convince me that direct shareholder control works better